

LOS ANGELES COUNTY
CAPITAL ASSET LEASING CORPORATION
(A Not-for-Profit Public Benefit Corporation)

Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

For the Fiscal Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Los Angeles County Capital Asset Leasing Corporation
Los Angeles, California

We have audited the accompanying basic financial statements of Los Angeles County Capital Asset Leasing Corporation (LACCAL) as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of LACCAL's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of LACCAL as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller and state regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LACCAL's basic financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2012, on our consideration of LACCAL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Qiu Accountancy Corp.".

QIU Accountancy Corporation
Certified Public Accountants

Los Angeles, California
November 19, 2012

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

This management's discussion and analysis of the Los Angeles County Capital Asset Leasing Corporation (LACCAL) provides an overview of LACCAL's financial activities for the fiscal year ended June 30, 2012. We recommend that this information be used in conjunction with LACCAL's audited financial statements.

LACCAL is a blended component of a larger governmental unit, the County of Los Angeles.

Assets, Liabilities, and Fund Balance

Total assets of LACCAL decreased by \$19.1 million (18%) from the prior fiscal year. Cash and investments decreased by \$10.5 million and net investment in direct financing leases decreased by \$8.6 million, decreasing the total assets to \$85.3 million.

Total liabilities of LACCAL decreased by \$22.4 million (24%) due in part to decrease of \$16.1 million in lease revenue bonds payable and decrease of \$6.3 million in accounts and interest payables.

The net assets of LACCAL increased \$3.3 million (34%) due to a greater decrease in liabilities over assets.

Table 1
Summary of Net Assets
as of June 30, 2012 and 2011
(in thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Assets</u>		
Total assets	\$ 85,303	\$ 104,429
<u>Liabilities</u>		
Long-term debt and bonds payable	50,992	66,312
Other liabilities	<u>21,374</u>	<u>28,495</u>
Total liabilities	<u>72,366</u>	<u>94,807</u>
<u>Net assets</u>		
Total net assets	\$ <u>12,937</u>	\$ <u>9,622</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued* For the Fiscal Year Ended June 30, 2012

Revenues, Expenses, and Change in Net Assets

Revenues of LACCAL increased by \$0.6 million (15%) from the prior year due to an increase in interest income received from investing activities.

Expenses of LACCAL increased by \$0.3 million (34%) from the prior year due to an increase in interest expense from financing activities.

Table 2
Summary of Changes in Net Assets
For the Fiscal Years Ending June 30, 2012 and 2011
(in thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues</u>		
Interest	\$ <u>4,553</u>	\$ <u>3,976</u>
Total revenues	4,553	3,976
<u>Expenses</u>		
Interest	1,185	859
Other expenses	<u>53</u>	<u>66</u>
Total expenses	1,238	925
<u>Change in net assets</u>		
Net income	3,315	3,051
Transfer surplus funds	<u>-</u>	<u>(3,363)</u>
Increase (decrease) in net assets	\$ <u>3,315</u>	\$ <u>(312)</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Management's Discussion and Analysis, *continued* For the Fiscal Year Ended June 30, 2012

Debt Management

During the year, Bond Anticipation Notes (BAN) payable of LACCAL decreased by \$60.0 million. The balance at year-end was \$17.0 million. Also, LACCAL redeemed Lease Revenue Bonds of \$14.4 million and issued new Lease Revenue Bonds of \$55.5 million, which resulted in an increase of \$41.1 million in outstanding Lease Revenue Bonds. LACCAL uses the notes to purchase equipment, machinery, vehicles, and other property for lease to the County of Los Angeles. The equipment is used as collateral to issue bonds. The proceeds from the bonds are used to retire the BANs. The lease payments received are used to service the debt payments on the bonds. For a more complete discussion, please refer to the accompanying "Notes to Basic Financial Statements."

Table 3
Debt Management
as of June 30, 2012 and 2011
(in thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Bond anticipation notes	\$ 17,000	\$ 77,000
Lease revenue bonds	<u>51,470</u>	<u>10,405</u>
Subtotal	68,470	87,405
Unamortized Premium/(Discount)	<u>3,072</u>	<u>251</u>
Total	\$ <u>71,542</u>	\$ <u>87,656</u>

Bond Ratings

The LACCAL's debt is rated by Moody's, Standard and Poor's and Fitch. The following is a schedule of ratings:

	<u>Moody's</u>	<u>Standard and Poor's</u>	<u>Fitch</u>
Lease Revenue Bond 2009A	A2	A+	A
Lease Revenue Bond 2011A	A2	A+	A+

Contacting LACCAL's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of LACCAL's finances and to demonstrate LACCAL's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Los Angeles, CA 90012.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Net Assets June 30, 2012

ASSETS

Current Assets

Pooled Cash and Investments (Note 2)	\$ 13,071,163
Interest Receivable	9,719
Total Current Assets	<u>13,080,882</u>

Non-Current Assets

Cash and Investments Held by Fiscal Agents (Note 2)	3,009,513
Net Investment in Direct Financing Leases (Note 3)	69,069,232
Deferred Bond Issue Costs	143,175
Total Non-Current Assets	<u>72,221,920</u>

TOTAL ASSETS	<u>85,302,802</u>
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LIABILITIES

Current Liabilities

Accounts Payable and Other Liabilities	633,240
Interest Payable	191,343
Revenue Bonds Payable - Current (Note 4)	20,549,805
Total Current Liabilities	<u>21,374,388</u>

Non-Current Liabilities

Bonds Anticipation Notes - Non-Current (Note 4)	17,000,000
Revenue Bonds Payable - Non-Current (Note 4)	33,991,706
Total Non-Current Liabilities	<u>50,991,706</u>

TOTAL LIABILITIES	<u>72,366,094</u>
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NET ASSETS

Unrestricted	12,936,708
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TOTAL NET ASSETS	<u>\$ 85,302,802</u>
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See Accompanying Notes to Basic Financial Statements.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Activities For the Fiscal Year Ended June 30, 2012

OPERATING REVENUE

Interest Income	\$ 4,553,520
Total Operating Revenue	<u>4,553,520</u>

OPERATING EXPENSES

Interest Expense	1,185,362
Amortization of Deferred Bond Issue Costs	42,945
Administrative	<u>10,120</u>
Total Operating Expenses	<u>1,238,427</u>

Operating Income	<u>3,315,093</u>
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Total Net Assets, Beginning	9,621,615
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Total Net Assets, Ending	<u><u>\$ 12,936,708</u></u>
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See Accompanying Notes to Basic Financial Statements.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Cash Flows For the Fiscal Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Principal Collections on Direct Financing Lease	\$ 25,168,934
Cash Paid for Services and Supplies	<u>(10,120)</u>
Cash Provided by Operating Activities	25,158,814
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Sale of Certificates and Notes	79,404,213
Principal Paid on Bonds, Certificates and Notes	(94,910,000)
Interest Paid on Bonds, Certificates and Notes	(1,840,601)
Payment of Bond Issuance Costs	(152,636)
Acquisition of Capital Assets	<u>(22,808,801)</u>
Cash Used in Capital and Related Financing Activities	(40,307,825)
Cash Flows from Investing Activities:	
Interest Income Received	<u>4,582,273</u>
Cash Provided by Investing Activities	<u>4,582,273</u>
Net Decrease in Cash and Cash Equivalents	(10,566,738)
Cash and Cash Equivalents, Beginning	26,647,414
Cash and Cash Equivalents, Ending	<u><u>\$ 16,080,676</u></u>

See Accompanying Notes to Basic Financial Statements.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Statement of Cash Flows, *continued* For the Fiscal Year Ended June 30, 2012

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ 3,315,093
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Deduct Interest Revenue Classified as Investing Activities	(4,553,520)
Add Interest Expense Classified as Capital and Related Financing Activities	1,185,362
Add Amortization of Deferred Bond Issuance	42,945

Changes in Assets and Liabilities -

Decrease in Net Investment in Direct Financing Leases Attributable to

Operating Activities	25,168,934
Total Adjustments	21,843,721

Net Cash Provided by Operating Activities	<u>\$ 25,158,814</u>
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Reconciliation of Cash and Cash Equivalents:

Pooled Cash and Investments	\$ 13,071,163
Cash and Investments Held by Fiscal Agents	3,009,513

Total Cash and Cash Equivalents	<u>\$ 16,080,676</u>
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Supplemental Disclosures:

There were no non-cash investing and financing activities for the fiscal year ended June 30, 2012.

See Accompanying Notes to Basic Financial Statements.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

General

Los Angeles County Capital Asset Leasing Corporation (LACCAL) was organized as a not-for-profit public benefit corporation in February 1983. The purpose was to purchase equipment, machinery, vehicles and other tangible personal properties for lease to the County of Los Angeles (County). LACCAL is governed by a five-member Board of Directors (Board) designated by the Board of Supervisors of the County. LACCAL is included in the County's financial reporting entity and is included as a blended component unit in the County's Comprehensive Annual Financial Report for the year ended June 30, 2012.

LACCAL is exempt from the payment of Federal income and California franchise taxes. However, the Fund is subject to the arbitrage restrictions under the U.S. Treasury Regulations Section 1.103, which may result in rebates of excess earnings to the U.S. Treasury Department.

Basis of Presentation and Accounting

The basic financial statements of LACCAL are prepared in accordance with generally accepted accounting principles (GAAP) in which the accrual basis of accounting is applied for preparing financial statements. Revenues are recognized when they are earned and become measurable, and expenses are recorded when they are incurred. Leases are classified as direct financing leases for accounting purposes. Bond discount, bond premium, and issuance costs are deferred and amortized over the term of the bonds.

LACCAL applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Cash and Investments

Investments are reported at fair value.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that year. Investment income includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

For the purpose of the Statement of Cash Flows, cash and cash equivalents include all highly liquid investments (including restricted assets) with maturity of three months or less when purchased.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies, *continued*

Revenues and Expenses

Operating revenues consist of interest received from direct financing leases. This interest revenue is an integral part of the programs of LACCAL and is the primary source for paying the expenses of LACCAL. Operating expenses consist of interest expense on lease revenue bonds and bond anticipation notes as well as administrative expenses to operate LACCAL. All LACCAL expenses are related to operating the programs.

2. Cash and Investments

Statutes authorize LACCAL to invest in obligations of the United States Treasury, federal agencies, municipalities, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and reverse repurchase agreements.

As provided by the State of California Government Code, substantially all cash balances of LACCAL are pooled and invested by the County Treasurer and are subjected to withdrawal from the pool upon demand. LACCAL's share of the total pooled cash and investments of the County Treasurer is included in the accompanying balance sheet under "Pooled Cash and Investments." The difference between LACCAL's carrying value in the investment pool and their proportional share of the fair value of the underlining securities is not material to the financial statements of LACCAL. Included in Pooled Surplus Investments portfolio are United States government and agency obligations, bankers' acceptance, commercial paper, municipal obligations, corporate and deposit notes, repurchase agreements, and negotiable certificates of deposit.

Investments are valued at cost, which approximates market value. Interest earned on pooled investments is allocated monthly to LACCAL based upon LACCAL's average daily deposit balance during the allocation period. Any investment losses are proportionately shared by all entities participating in the pool as a reduction in interest earnings.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, LACCAL will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2012, LACCAL's investments consisted of money market fund shares in the amount of \$3,009,513 and investments pooled with the County Treasurer in the amount of \$13,071,163 which represents 0.06% of the total County pooled investments. The investments held by the trustees are not exposed to custodial credit risk since they are in LACCAL's name. Likewise, the deposits pooled with the County are not exposed to custodial credit risk since all of its deposits are either covered by the federal depository insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with California Government Code Section 53652.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

2. Cash and Investments, *continued*

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments the LACCAL has with any one issuer that exceeds five (5%) percent or more of its total investments. Investments in money market mutual funds are excluded from this requirement. Furthermore, investments with the County Treasurer are subject to a policy that establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. Also, the County Treasurer mitigated the risks by holding a diversified portfolio of high quality investments. As of June 30, 2012, LACCAL was not exposed to concentration of credit risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the trust agreement, and the actual rating as of year-end.

Investment Type Held by <u>Bond Trustee</u>	<u>Amount</u>	<u>Minimum Rating</u>	<u>Rating as of June 30, 2012</u>
Money Market Funds	\$3,009,513	Am/Aaa	Aaa

At June 30, 2012, the County Treasurer did not exceed its investment policy limitations since no more than 5% of total market value of the pooled funds was invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% was invested in one money market mutual fund.

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

2. Cash and Investments, *continued*

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. LACCAL does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except for bills of exchange or time drafts with maturity dates not to exceed 270 days and commercial paper with maturity dates not to exceed 180 days.

Information about the sensitivity of the fair values of the LACCAL's investment held by trustees to market rate fluctuations is provided by the following table that shows the distribution of their investments by maturity:

Investment Type Held by Trustee	Remaining Maturity (in Months)				Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Money Market Funds	\$1,000,174		\$2,009,339		\$3,009,513

The County Treasurer mitigates exposure to declines in fair value by investing in short-term investments with maturities of six months or less and by holding asset investments to maturity. The investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. At June 30, 2012, 50.96% have a maturity of six months or less, 6.02% have a maturity of between six and twelve months, and 43.02% have a maturity of more than one year.

3. Net Investment in Direct Financing Leases

The main purpose of LACCAL is to lease equipment, vehicles and other tangible personal properties to the County of Los Angeles. Lease terms generally range from three to five years and are close to the useful life of leased assets. A special lease term of seven years was allowed in 2011 for acquisitions of helicopters which have longer useful life than other equipment.

The net investment at June 30, 2012 is as follows:

Total Minimum Lease Payments Receivable	\$ 77,555,001
Less: Unearned Interest Income	<u>(8,485,769)</u>
Net Investment in Direct Financing Leases	\$ <u>69,069,232</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

3. Net Investment in Direct Financing Leases, *continued*

Minimum lease payments to be received in each of the next five years and thereafter under the lease provisions as follows:

Year Ending June 30	Amount
2013	\$ 24,678,999
2014	17,402,552
2015	13,173,594
2016	11,360,171
2017	8,314,625
2018	2,625,060
Total	<u>\$ 77,555,001</u>

4. Long-Term Debt

Long-term liabilities for the year ended June 30, 2012 are as follows:

	Balance at June 30, 2011	Principal Additions	Unamortized Premiums (Discount)	Principal Repayments	Amortized Premiums (Discount)	Balance at June 30, 2012	Amounts Due Within One Year
Lease Revenue Bonds							
2009 Series A (#27)	\$ 10,655,917	\$ -	\$ -	\$ 6,165,000	\$ 178,271	\$ 4,312,646	\$ 4,312,646
2011 Series A (#28)	-	23,925,000	789,538	5,295,000	99,083	19,320,455	9,295,701
2011 Series A (#29)	-	31,550,000	2,639,675	2,950,000	331,265	30,908,410	6,941,458
Subtotal	<u>10,655,917</u>	<u>55,475,000</u>	<u>3,429,213</u>	<u>14,410,000</u>	<u>608,619</u>	<u>54,541,511</u>	<u>20,549,805</u>
Bond Anticipation Notes							
Notes Payable #28	40,000,000			40,000,000		-	-
Notes Payable #29	37,000,000	3,500,000		40,500,000		-	-
Notes Payable #30	-	17,000,000				17,000,000	-
Subtotal	<u>77,000,000</u>	<u>20,500,000</u>	<u>-</u>	<u>80,500,000</u>	<u>-</u>	<u>17,000,000</u>	<u>-</u>
Total	<u>\$ 87,655,917</u>	<u>\$ 75,975,000</u>	<u>\$ 3,429,213</u>	<u>\$ 94,910,000</u>	<u>\$ 608,619</u>	<u>\$ 71,541,511</u>	<u>\$ 20,549,805</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

4. Long-Term Debt, *continued*

Revenue Bonds

Lease Revenue Bonds, 2009 Series A

On November 16, 2009, LAC-CAL issued \$24,025,000 of Lease Revenue Bonds, with interest rates of 2% to 5%, to partially retire \$40,000,000 of bond anticipation notes. These mature serially December 1 and June 1 each year and interest is payable on December 1 and June 1. The following is a summary of interest and principal payable for the 2009 Series A Lease Revenue Bonds:

<u>Year</u>	<u>Principal Payable</u>		<u>Total</u>	<u>Interest Payable</u>		<u>Total</u>
	<u>June 1</u>	<u>December 1</u>		<u>June 1</u>	<u>December 1</u>	
2012		\$2,560,000	\$2,560,000		\$106,000	\$106,000
2013	\$1,680,000		1,680,000	\$42,000		42,000
Add: Unamortized Premium			<u>72,646</u>			<u> </u>
Total			<u>\$4,312,646</u>			<u>\$148,000</u>

Lease Revenue Bonds, 2011 Series A

On December 6, 2011, LAC-CAL issued \$55,475,000 of Lease Revenue Bonds, with interest rates of 1.50% to 5%, to partially retire \$80,500,000 of bond anticipation notes. These mature serially December 1 and June 1 each year and interest is payable on December 1 and June 1. The following is a summary of interest and principal payable for the 2011 Series A Lease Revenue Bonds:

<u>Year</u>	<u>Principal Payable</u>		<u>Total</u>	<u>Interest Payable</u>		<u>Total</u>
	<u>June 1</u>	<u>December 1</u>		<u>June 1</u>	<u>December 1</u>	
2012		\$ 8,025,000	\$ 8,025,000		\$ 852,838	\$ 852,838
2013	\$7,145,000	6,710,000	13,855,000	\$792,650	685,475	1,478,125
2014	5,100,000	4,685,000	9,785,000	584,825	482,825	1,067,650
2015	4,595,000	4,195,000	8,790,000	389,125	274,250	663,375
2016	3,830,000	2,945,000	6,775,000	169,375	73,625	243,000
Add: Unamortized Premium			<u>2,998,865</u>			<u> </u>
Total			<u>\$50,228,865</u>			<u>\$4,304,988</u>

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION

Notes to Basic Financial Statements, *continued*
For the Fiscal Year Ended June 30, 2012

4. Long-Term Debt, *continued*

Bond Anticipation Notes (BANs)

LACCAL bond anticipation notes are purchased as an investment by the County Treasury Pool in accordance with the terms of the "Resolution of the Board of Directors of the LACCAL Corporation" adopted on June 24, 1986. Later, the resolution was revised to the "Resolution of the LACCAL Reauthorization A Program for the Issuance of Bond Anticipation Notes to Finance Equipment, Increasing the Amount Thereof and Providing Additional Security for the Repayment Thereof" which was adopted by the County on February 10, 1995. Proceeds from these notes are used to purchase equipment, machineries and vehicles and other tangible personal properties. The interest rate is based upon the pricing of the six-month U.S. Treasury Bill plus one-half of one percent (0.50%) at the time of the draw, and then adjusted to changes in that rate on a reset date. A reset date is January 2 and July 1 of each year.

Adjustments will be made to the Treasury Rate on two reset dates following the initial draw. The interest rate for draws which remain unpaid on the third reset date will convert on that date to the Bank of America prime rate and will be reset quarterly thereafter. Interest on these notes is payable to the Treasury Pool on January 2 and July 1. The principal and remaining interest on the notes are payable upon issuance of leasehold revenue bonds prior to maturity of the notes. The maximum aggregate principal amount of these notes authorized by the Board is \$51,798,000.

Bond anticipation notes outstanding at June 30, 2012 mature on the following date:

<u>Maturity Date</u>	<u>Amount</u>
June 30, 2014	<u>\$ 17,000,000</u>
Total	<u>\$ 17,000,000</u>

Bond anticipation notes are secured by annual base rental payments from various County departments for use of the equipment or facilities constructed or purchased from the note proceeds.

5. Subsequent Events

Bond Anticipation Note No. 94

On December 5, 2012, LACCAL issued a \$10,000,000 Bond Anticipation Note due on June 30, 2015. The note was purchased as an investment by the County Treasury Pool and bears interest at a rate of 0.5% above the pricing of the six-month U.S. Treasury Bill. The initial rate was approximately 0.632% and will be adjusted on the reset dates on January 2 and July 1. Proceeds of the notes are being used to purchase equipment. Under the terms of the resolution governing the issuance of the notes, LACCAL is required to use the proceeds of leasehold revenue bonds to retire the notes prior to their maturity dates.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Los Angeles County Capital Asset Leasing Corporation
Los Angeles, California

We have audited the basic financial statements of Los Angeles County Capital Asset Leasing Corporation (LACCAL) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of LACCAL is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered LACCAL's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACCAL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LACCAL's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACCAL's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of LACCAL's management and it is not intended to be and should not be used by anyone other than LACCAL's management.

A handwritten signature in cursive script that reads "Qiu Accountancy Corp.".

QIU Accountancy Corporation
Certified Public Accountants

Los Angeles, California
November 19, 2012